

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

as of

DECEMBER 31, 2003

of the

PEOPLES SAVINGS LIFE INSURANCE COMPANY

ALEXANDER CITY, ALABAMA

PARTICIPATION:

Alabama

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EXAMINATION AFFIDAVIT

STATE OF ALABAMA

COUNTY OF TALLAPOSSA

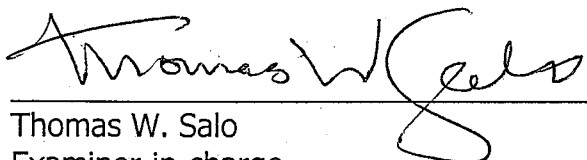
Thomas W. Salo being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Peoples Savings Life Insurance Company for the period of January 1, 2001 through December 31, 2003;

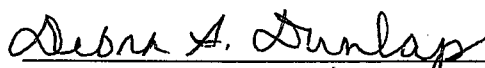
That the following 26 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Thomas W. Salo
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 6th day of August, 2004.



(Signature of Notary Public)

Debra S. Dunlap Notary Public
Printed name

in and for the State of Alabama

My commission expires 1-29-07



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
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Alexander City, Alabama
August 6, 2004

WALTER A BELL
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
D DAVID PARSONS
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama
P.O. Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Bell:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and financial condition of the

Peoples Savings Life Insurance Company
Alexander City, Alabama

at its home office located at 1977 Cherokee Drive, Alexander City, Alabama 35010, as of December 31, 2003. The report of examination is submitted herewith.

Where the description "Company" appears herein without qualification, it will be understood to indicate Peoples Savings Life Insurance Company.

SCOPE OF EXAMINATION

The examination reported herein covers the period from January 1, 2001, through December 31, 2003, and has been conducted by examiners representing the State of Alabama Department of Insurance. Events subsequent to December 31, 2003, have been reviewed, and are reported herein, as deemed appropriate.

The examination has been conducted in accordance with statutory requirements of the *Alabama Insurance Code* and regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were determined or estimated as of December 31, 2003, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, a signed certificate of representation was obtained from the President and the Chief Operations Officer of the Company. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2003. A signed letter of representation was also obtained at the conclusion of the examination whereby the President and Chief Operating Officer represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

Within this report, discussions of financial statement balances have been confined to those items for which a material change in the financial statement has been noted or for which comments and /or recommendations have been made.

ORGANIZATION AND HISTORY

The Company commenced business on October 3, 1950 as a mutual aid company with a \$5,000 surplus from contributions made by the stockholders of record. Authorized capital stock was \$25,000, which was made up of 250 shares of stock with a par value of \$100 each. On December 28, 1984, the capital stock was increased to \$100,000 divided into 25,000 shares of stock, each with a par value of \$4. Mr. William B. Sexton purchased the company on April 26, 1996. Before this purchase, the company redeemed 12,499 shares of stock for the sum of \$338,008 thereby reducing the capital to \$50,004 and reducing the unassigned surplus by the difference. The company's Certificate of Authority was suspended on April 26, 1996, due to the sale of assets and

statutory deposits without prior approval from the Commissioner. After putting \$20,000 on deposit with the State Treasurer as a statutory deposit, the suspension was lifted on May 22, 1996. The company's charter was nullified at the hearing on February 5, 1998. At the hearing, the company was found to be in violation of ALA. § CODE 27-27-50(b) (1975). This section states that the corporate charter will be nullified if a company does not engage in the business as a domestic insurer for a period of 36 consecutive months. Upon appeal and presentation of new evidence, the company's charter was reinstated on May 18, 1998. Mr. Nathan W. Stark purchased the stock of Peoples Savings Life Insurance Company on June 2, 1998. The Company then relocated to Alexander City, Alabama. In 1998, 1999, and 2000 the Company had net written premiums of \$0, \$28,197 and \$0 respectively. A hearing took place on the basis of an Order to Show Cause (violation of Regulation 101) on September 19, 2000. The Company had a significant operational loss within a twelve month period, which was determined to be 50% of the insurer's remaining surplus as regards policyholders in excess of the minimum requirement. The Company was operating under hazardous financial conditions. At the hearing, it was ordered that the Company address every request contained in an August 8, 2000 letter to the Company from the Department. During the second quarter of 2001, the Company increased their capital by \$150,000 in order to issue \$10,000 policies. During the financial examination as of 12/31/00, it was recognized that the company had begun issuing certificates on their Group Policy #G-001 which had not been approved by the Alabama Department of Insurance. The Company was asked to stop issuing certificates until the policy had been approved. Group Policy #G-0001 was approved by the Alabama Department of Insurance on January 04, 2000. On October 2, 2001, the Company was issued an Order to Show Cause for violations pertaining to Alabama Department of Insurance Regulation 118 and ALA. CODE §27-3-21(b)(2) (1975). The Company has complied with the Order to Show Cause. On October 10, 2001 the Company reduced its outstanding shares of stock from 20,000 to 12,500 and increased the par value from \$10 per share to \$16 per share.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following schedule presents financial data, which reflects the growth of the Company for the years indicated:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2000	\$ 0	\$358,770	\$ 381	\$358,388
2001	276,363	392,201	15,131	377,079
2002	361,138	595,423	30,131	565,293
2003	380,297	702,198	117,648	584,550

Data for the years 2000 and 2003 are per examination. Data for the remaining years was obtained from Company copies of filed Annual Statements.

STATUTORY DEPOSITS

In accordance with applicable Alabama insurance statutes, the Company maintained the following deposit with the Treasurer, State of Alabama, at December 31, 2003:

Colonial Bank, Certificate of Deposit in the amount of \$20,000 at 3.350%, dated 01/14/2003, due 01/14/2009 (automatic renewal)

Confirmation of this deposit was obtained directly from the Alabama Department of Insurance.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration and Reporting

The Company was subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in ALA. CODE §27-29-1 (1975).

The Company is responsible for holding company registration statement (Form B) and periodic informational filings with the Alabama Department of Insurance, in accordance with ALA. CODE §27-29-4 (1975), and the ALA. ADMIN. CODE 482-1-55 (2002).

In connection therewith, the Company was registered with the Alabama Department of Insurance as the registrant of an Insurance Holding Company System. A review of the Company's Form B Amendments filed for the period under examination indicated that all required filings had been made in a timely manner. However, it was determined that the Form B did not identify every member of the Holding Company, as required by ALA. CODE §27-29-4(b)(1)(2)(3)(1975). Mr. Nathan Wayne Stark is listed as the ultimate controlling person on the most recent filed Form B.

The Company failed to complete Schedule Y, Part 1 in accordance with NAIC Annual Statement Instructions in that they did not list all the members that are within the Holding Company System. Also, the Company did not include Schedule Y, Part 2 as part of the annual statement, in accordance with NAIC Annual Statement Instructions in that they did not include the transactions between affiliates or related parties.

Organizational Chart

The chart on page 6 depicts the insurance holding company system with which the Company was affiliated as of December 31, 2003. As mentioned above, the Company

failed to identify every member within the Holding Company System. The Company did not complete *Schedule Y, Part 1* of the 2003 Annual Statement in accordance with the NAIC Annual Statement Instructions, which states, "...all members of a holding company group shall prepare a common schedule for inclusion in each of the individual annual statements. If you are required to file a registration statement under the provisions of your domiciliary state's Insurance Holding Company System Act, then *Schedule Y, Part 1, Organization Chart* must be included in the Annual Statement."

Further, The Company did not include and complete *Schedule Y, Part 2*, as part of the Annual Statement in accordance with the NAIC Annual Statement Instructions in that they did not include the transactions between the affiliates or related parties

(continued next page)

Agreements with Affiliates

The following agreements between the Company and its affiliates were in effect during the examination period and at December 31, 2003:

Client Service Agreement

The Company has two employees, who were leased to Skilstaf, effective September 23, 1998. SkilStaf, Inc. was contracted to handle all the administration duties of the Company. The Company pays service fees to Skilstaf, Inc., for such services. The service fee is equal to the rate percentage specified in Schedule I of the agreement multiplied times the gross earnings, as adjusted, of the assigned employees filling job function positions for the Client.

Currently, the agreement is automatically renewed for a period of twelve (12) months. If either party decides to terminate the agreement; thirty days prior written notice must be provided to the other party.

Salaries related to this agreement in 2003 were \$102,923 and includes the service fee.

This agreement was approved by the Alabama Department of Insurance on January 9, 2002.

Agency Agreement

The Company and its wholly-owned affiliate, Peoples Savings Agency, entered into this agreement on May 10, 2002 and it was retroactive to the date of incorporation of the agency. The Company gives full authority to the agency to solicit life, accident, disability, and health insurance on its behalf. All commissions resulting from such solicitations will become income for the agency. The Company will be responsible for all necessary filings on behalf of the Company and the agency, including, but not limited to, quarterly statements, annual statements, tax returns, etc...

The agreement will be in force until the time either party gives a written notice of termination of the agreement. At such time, agreement will terminate on the first day of the month, immediately following the notification.

This agreement was approved by the Alabama Department of Insurance on January 9, 2002.

Management Controls, Inc.

The Company and its affiliate, Management Controls, Inc. (MCI), entered into this agreement on May 10, 2002, and retroactive to the date of the purchase of the Company by its current shareholders.

MCI will appoint a designated representative of their company to assume the responsibilities as outline in the terms of the contract.

Subject to the direction of the Company, MCI will provide various services, including, but not limited to the following:

1. Maintaining receivables and payables and preparing income and expense reports.
2. Maintaining checking account including reconciliation of statements
3. Preparing all information pertaining to quarterly and annual statements and tax filings.
4. Implementing investment decisions and preparing investment statements.

All financial records will be maintained in the home office of the Company, located at 1977 Cherokee Drive, Alexander City, Alabama 35010.

Services provided by MCI will be billed annually in the amount of \$2,000 per year.

This agreement shall remain in force until either party issues a written notice of termination to the other. Upon notification, this agreement will terminate on the last day of the month in which the notice is issued.

This agreement was approved by the Alabama Department of Insurance on January 9, 2002.

Lease agreement

The Company and its affiliate, Skilstaf, Inc., entered into this agreement on January 21, 2002. Skilstaf, Inc. agrees to sublease office space which is located in the Skilstaf Annex at 1977 Cherokee Drive, Alexander City, Alabama 35010.

The monthly sublease amount will be \$250.00, which represents one-third of the lease amount of the entire complex.

This lease shall remain in effect until either party issues written notice of termination to the other. Upon notification, this sub-lease will terminate on the last day of the month in which the notice is issued.

At the onset of this examination, it was found that the Company was operating under this lease agreement which had not been approved by the Alabama Department of Insurance in accordance with ALA. CODE §27-29-5(B)(4) (1975). A revised lease agreement was submitted to the Alabama Department of Insurance during the examination, and was approved by the Commissioner on July 20, 2004.

Dividends to Stockholders

No dividends to stockholders were paid during the examination period.

CORPORATE RECORDS

The Company filed the restated and amended Articles of Incorporation and By-Laws on October 6, 2000. The Articles and Bylaws were reviewed during the course of this examination, and it was determined that the Company is not in compliance with its By-Laws. During the examination period, annual meetings were held at different times instead of the second Tuesday of March, as indicated in Section 2.3 of the Company's By-Laws. ALA CODE § 27-27-22(b)(3)(1975) states:

" The time, notice, quorum and conduct of annual and special meetings of members and voting thereat. The bylaws may provide that the annual meeting shall be held at a place, date and time to be set forth in the policy and without giving other notice of such meeting".

The minutes of the Board of Directors from July 16, 2001, through March 29, 2004, were reviewed. The minutes appeared to be complete and to adequately document the actions of the governing bodies. However, the Company could not provide signed copies of the resolutions dated October 10, 2001, which changed the number of issued and outstanding shares of the Company's common stock from 20,000 to 12,500 shares and raised the par value from \$10 to \$16 per share. This is not in accordance with ALA. CODE §27-30-21(a) (1975), which states that ..."Every mutual aid association shall keep complete and accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting..."

In the 2002 and 2003 Annual Statements, under General Interrogatories, the Company failed to accurately report the number of issued and outstanding shares of common stock and its par value in accordance with the NAIC's Annual Statement Instructions. In 2002 and 2003, the Company reported the number of shares outstanding as 20,000 and it should be 12,500 and the par value was reported as \$10 and it should be \$16.

MANAGEMENT AND CONTROL

Stockholders

As of December 31, 2003, Mr. Nathan Wayne Stark owned 11,750 of the 12,500 shares of the total issued and outstanding common shares of stock. The remaining 750 shares were owned by six individuals possessing 125 shares per each. Those individuals are as follows: Wanda Claybrook Stark, Misty Stark Sanders, Mindy Stark Haynes, Melanie Stark Fields, Nathan Wayne Daniel Stark, and Meika Stark Hilsman.

Board of Directors

The Company's By-Laws provide that the Board of Directors shall consist of at least seven persons, each whom must be a stockholder of the corporation. The stockholders shall have the right to elect Directors at the annual meeting and to remove any Director with or without cause at an annual meeting or special meeting.

The following directors were re-elected September 15, 2003, as a result of a special meeting, and were serving at December 31, 2003:

<u>Director</u>	<u>Principal Occupation</u>
Nathan Wayne Stark	President of the Company, and Chairman of the Board of Directors
Wanda Claybrook Stark	Executive Vice President of the Company and Vice Chairman of the Board of Directors
Misty Stark Sanders	School Teacher
Mindy Stark Haynes	Human Resource Director
Melanie Stark Fields	School Teacher
Meika Stark Hilsman	Accountant
Nathan Wayne Daniel Stark	Civil Engineer

Committees

The Company's By-Laws provide that the Board of Directors may designate committees of its members, including an executive committee, to exercise all the authority of the Board, except that reserved by statute, to the Board. Each committee may have one or

more members, who will serve at the pleasure of the Board of Directors. At December 31, 2003, there was no indication that a committee was established. During 2002 and 2001, the Company invested in a \$20,000 bond with Federal Home Loan Bank. There was no evidence demonstrating that the Board of Directors ratified the Company's investment in this bond.

Officers

The By-Laws specify that the Board of Directors shall elect, appoint, and remove as necessary, the following officers, who may in turn, appoint assistant officers unless the Board overrides such appointments of assistants.

The following were serving as officers of the Company at December 31, 2003:

<u>Officer</u>	<u>Title</u>
Nathan Wayne Stark	President
Wanda Claybrook Stark	Treasurer/Secretary and V.P.
Reginald Allen Brewer**	Chief Operating Officer

**Reginald Allen Brewer replaced Pat Lee Gilliland in July, 2001.

Conflict of Interest

The Company's Articles of Incorporation set forth guidelines that all directors shall avoid prohibited conflicts of interests and abide by Alabama pecuniary regulations governing the Company. However, the Company was unable to provide completed and signed statements by its directors, officers, or any employees who had access to the assets of the Company. ALA. CODE §27-27-26 (1975) sets forth the transactions in which an officer or director is prohibited from entering into with a Company. Conflict of interest policies and statements are necessary internal controls in insuring compliance with the above-mentioned section of the *Alabama Insurance Code*.

EMPLOYEE AND AGENTS' WELFARE

The Company has two employees and they have no retirement plan, deferred compensation plan and/or benefit plan in effect.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2003, the Company was listed as the named insured on a Financial Institution Bond issued by Chubb Group of Insurance Companies, in the aggregate

amount of \$1,000,000 with a deductible of \$25,000, which met the suggested minimum requirements of the NAIC Financial Condition Examiner's Handbook. The bond provided on premises, in transit, forgery or alteration coverages for directors and officers.

In addition to the above coverage, the Company was a named insured under policies providing the following protection at December 31, 2003:

- Commercial Umbrella
- Commercial General Liability
- Automobile Liability.

The coverages and limits of the Company's insurance were reviewed and were deemed to adequately protect the Company's interests at the examination date.

MARKET CONDUCT

Territory

The Company is licensed in Alabama only. Its Certificate of Authority, effective October 1, 1950, was inspected and found to authorize the Company to write group term life insurance policy, and includes provisions for life insurance benefit, AD&D, and dependent life insurance benefits.

Plan of Operation

The Company provided an agency agreement, which indicated that Peoples Savings Agency, Inc., would solicit business on behalf of the Company. All commissions resulting from the solicitations become income for the agency. On December 12, 2001, the Company appointed Reginald Allen Brewer as its only agent. Mr. Brewer is the Chief Operating Officer of the Company, and he is also the Executive Vice President of Peoples Savings Agency, Inc.

Policy Forms and Underwriting

At December 31, 2003, the Company writes only group term life insurance under its Group Policy #G-0001 which was approved by the Alabama Department of Insurance on January 4, 2000. Skilstaf, Inc. is the Company's only customer under this group term life policy.

Compliance With Agents' Licensing Requirements

At December 31, 2003, the Company has only one active, properly licensed agent, who is on salary and receives no commissions.

Advertising

The Company did not have a formal advertising program.

Claims Payment Practices

The claim files were inspected in order to evaluate the Company's claims payment practices. Claims were inspected in relation to payment timeliness, to compliance with policy provisions, and adequacy of documentation.

All claims were paid in a timely fashion. However, it was noted that the Company resisted paying four claims at \$10,000 each because the decedents had not met the 90 day waiting period that is disclosed in the certificate holder's handout. However, in reviewing the Company's Group Policy #G-0001, which has been approved by the Alabama Department of Insurance, the waiting period is 60 days. **(see Note 1)**

The complaint files maintained by the Alabama Department of Insurance revealed no complaints against the Company.

Privacy Policy and Practices

During the examination the following was noted:

1. The Company does not have a written privacy policy. However, the Company's two employees abide by all current HIPAA guidelines and all personal information is kept secured and is not shared.
2. The Company does not issue an initial privacy notice nor does it send out annual privacy notices to its policyholders.
3. The Company does not have a formal privacy training manual

REINSURANCE

Reinsurance

The Company had no assumed or ceded reinsurance reported at December 31, 2003.

ACCOUNTS AND RECORDS

Internal Records

Certain detail records were kept manually and by computer. Personnel of Skilstaf, Inc., Management Controls, Inc., and a consultant from the State of Florida performed

management and record-keeping functions for the Company during the examination period.

The examiner encountered difficulty when reconciling the trial balances to the annual statements for the period under review. The financial consultant in Clearwater, Florida, had to make necessary changes in the trial balances in order for them to reconcile to the annual statements. Also, there were numerous instances of incomplete or inconsistent records and accounting errors. The 2003 Annual Statement did not include all necessary exhibits. *Schedule Y - Part 2*, was missing. *Schedule Y-Part 1*, and *General Interrogatories* were not completed in accordance with NAIC Annual Statement Instructions. ALA. CODE §27-30-21(a)(1975) which states:

"Every mutual aid association shall keep complete and accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting..."

Numerous documents and work papers of the Company were not maintained in the home office. Certain work papers were located in the office of the Company's financial consultant, who prepares the Company's annual statements, and resides in Clearwater, Florida. The general ledger, disbursement and receipt journals and cancelled checks were not kept in the home office of the Company but at the office of Crystal Dunn at Skilstaf, Inc. All work papers and documents of the Company should be kept in the principal offices of the association located in this state and be available for inspection by the Commissioner on any general business day, in accordance with ALA. CODE §27-30-21(b)(1975).

The Company reported the amount paid for the security in its repurchase account at December 31, 2003 in Schedule E-Part 1 as cash instead of in Schedule DA – Part 1 as a short-term investment, which was not in compliance with the NAIC Accounting Practices and Procedures Manual – SSAP 45, paragraph 4. This misclassification did not affect surplus.

The Company reported its certificate of deposit held by the State in Schedule E- Part 1, therefore not complying with the NAIC Annual Statement Instructions. Also, the description of the deposit did not include the due date of its certificate of deposit, therefore, not complying with the NAIC Annual Statement Instructions.

At 12/31/03, the Company had a due and unpaid claim in the amount of \$10,000 on the life of a claimant who died 12/22/03. The death certificate for this claim has not yet been issued as the claimant's demise is under investigation by law enforcement. This claim should have been listed under Schedule F Death Claims Resisted or Compromised in accordance with NAIC Annual Statement Instructions and should also have been listed as a liability under the caption, Other Claims in the Course of Settlement in Exhibit 8 Part 1 at Line 2.21 of the 2003 Annual Statement in accordance with SSAP No. 55

Paragraph 6b(iii) which states that a liability should be established for claims that have been reported but the reporting entity has not received all of the required information or processing has not been completed as of the statement date. The check for \$10,000 (representing full payment of the death benefit) has been deducted from the cash disbursement journal and agreed to the general ledger for 2003. The amount of \$10,000 is immaterial, in this instance, and no financial adjustment will be made to the annual statement.

The Company reported \$27,380 as a write-in for miscellaneous income on line 8.3 on page 4, Summary of Operations. This income did not belong to the Company but was income associated with Peoples Savings Agency. The Company also erroneously included \$8,137 of premium income in its Premium Considerations for Life Contracts. This income also belonged to the Company's subsidiary, Peoples Savings Agency. ALA. CODE 27-30-21(a)(1975) states that ..."Every mutual aid association shall keep complete and accurate records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting..." **(see Note 2)**

The Company does not have an internal audit function.

External Audits and Actuarial

The Company was audited annually by the certified public accounting firm of Don Thornell, CPA, Inc., Alexander City, Alabama, who conducted all of the Company's audits for the examination period.

The Company has retained Wakely Consulting Group in Clearwater, Florida, to prepare its Loss Reserve Analysis.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the operation of the Company for the years under examination and its financial condition at December 31, 2003, consists of the following:

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***THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE
AN INTEGRAL PART THEREOF.***

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Year Ended December 31, 2003

	<u>ASSETS</u>			
	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Cash	\$ 702,198			\$ 702,198
Common stocks	1,000		1,000	
Furniture and equipment	7,204		7,204	
Total Assets	<u>\$ 710,402</u>	<u>\$ -</u>	<u>\$ 8,204</u>	<u>\$ 702,198</u>

LIABILITIES SURPLUS AND OTHER FUNDS

Liabilities

Contract claims: Life (<i>Note 1</i>)	\$ 70,000
Current federal and foreign income taxes	12,131
Payable to affiliate (<i>Note 2</i>)	<u>8,137</u>
Total Liabilities	\$ 90,268

Surplus and Other Funds

Common capital stock		\$ 200,000	
Gross paid in and contributed surplus	\$ 197,000		
Unassigned funds (<i>Note 3</i>)	<u>214,930</u>		
Total surplus		<u>411,930</u>	
Total capital and surplus			<u>611,930</u>
Total Liabilities, Surplus and Other Funds			<u>\$ 702,198</u>

COMPARATIVE SUMMARY OF OPERATIONS

For the Years Ended December 31,

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>Income:</u>					
Premium considerations (NOTE 2)	\$ 407,677	\$ 361,138	\$ 276,363	\$ -	\$ 28,197
Net investment income	4,429	6,391	10,548	9,050	(125,108)
Write-in for miscellaneous income		76,113	70,000	376,955	
Total income	\$ 412,106	\$ 443,642	\$ 356,911	\$ 386,005	\$ (96,911)
<u>Deductions:</u>					
Benefits under life policies (NOTE 1)	\$ 180,725	\$ 120,725	\$ 100,000	\$ 20,000	\$ 10,000
Increase in aggregate reserve for life policies				\$ (14,100)	\$ 14,100
General insurance expenses	199,121	125,633	218,885	254,677	132,921
Insurance taxes, licenses and fees	4,156	10,316	20,595	8,847	3,012
Federal income taxes incurred	12,131				
Net realized capital gain	553				
Aggregate write-in for deductions					
Total deductions	396,686	\$ 256,674	\$ 339,480	\$ 269,424	\$ 160,033
Federal income taxes incurred	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	\$ 15,420	\$ 186,968	\$ 17,431	\$ 116,581	\$ (256,944)

RECONCILIATION OF CAPITAL AND SURPLUS

For the Years Ended December 31,

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Capital and surplus, January 1	\$ 565,293	\$ 377,069	\$ 357,638	\$ 237,172	\$ 295,888
Net income	\$ 92,174	\$ 186,968	\$ 17,431	\$ 116,581	\$ (256,944)
Increase in claims liability per examination <i>(Note 1)</i>	\$ (40,000)				
Increase in payable to parent, subsidiary, and affiliates <i>(Note 2)</i>	\$ (8,137)				
Change in unrealized capital gain or (loss)				\$ (26,700)	\$ 27,700
Change in non-admitted assets	2,600	1,256	2,000	30,200	(35,087)
Net unrealized capital gain or (loss)				(1,000)	
Paid in surplus					
Change in asset valuation reserve				1,385	(1,385)
Change in treasury stock				24	
Paid in capital					207,000
Transferred to surplus				268,338	
Transferred from capital				(268,362)	
Change in capital and surplus during year	\$ 46,637	\$ 188,224	\$ 19,431	\$ 120,466	\$ (58,716)
Capital and surplus, December 31	\$ 611,930	\$ 565,293	\$ 377,069	\$ 357,638	\$ 237,172

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1 – Contract Claims-Life</u>	<u>\$70,000</u>
<u>Benefits under life policies</u>	<u>\$180,725</u>

The captioned amounts for contract claims life and benefits under life policies are both \$40,000 more than the amounts reported in the Company's 2003 Annual Statement.

In reviewing the Company's death benefit files for the period of the examination, it was noted that the Company resisted paying four claims at \$10,000 each because the descendants had not met the 90 day waiting period that is disclosed in the certificate holder's handout. However, in reviewing the Company's Group Policy #G-0001, which has been approved by the Alabama Department of Insurance, the waiting period is 60 days.

<u>Note 2 – Premium consideration for life contracts</u>	<u>\$380,297</u>
<u>Payable to affiliate</u>	<u>(\$8,137)</u>

The examination determined that the Company received \$8,317 in premium income which belonged to its affiliate, Peoples Savings Agency. The amount of the captioned premiums consideration for life contracts is \$8,137 less than the amount reported in the 2003 Annual Statement while the amount of the captioned increase in payable to affiliates is \$8,137 more than the amount reported in the 2003 Annual Statement.

<u>Note 3 – Unassigned funds</u>	<u>\$187,550</u>
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The amount of the captioned unassigned funds is \$75,517 less than the \$263,067 reported in the Company's 2003 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed 2003 Annual Statement to that developed by this examination.

(Continued next page)

Unassigned funds balance per Company **\$ 263,067**

Examination increase/(decrease) to assets:

NET CHANGES IN ASSETS \$ -0-

Examination (increase)/decrease to liabilities:

- Contract claims: Life (NOTE 1) \$(40,000)
- Payable to parent, subsidiaries and affiliates (8,137)
(NOTE 2)

TOTAL (INCREASE) TO LIABILITIES \$(48,137)

**Examination increase/(decrease) to
Unassigned funds** **(48,137)**

Unassigned funds balance per examination **\$214,930**

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included: a review of the Company's statutory financial statements disclosures; performance of the usual search for unrecorded items; and obtaining letters of representation from management. During the review, no significant items were noted.

COMMENTS AND RECOMMENDATIONS

Holding Company Registration and Reporting – Page 4

It is again recommended that the Company identify every member of the Holding Company System on its filing statements in accordance with ALA. CODE §27-29-4(b)(1)(2)(3)(1975).

It is recommended that the Company list all members of the Holding Company System on Schedule Y, Part 1, in accordance with the NAIC Annual Statement Instructions.

It is also recommended that the Company complete Schedule Y, Part 2, showing all transactions between related parties and affiliates in accordance with the NAIC Annual Statement Instructions.

Organizational Chart – Page 4

It is again recommended that the Company list all members within the Holding Company System on *Schedule Y, Part 1* in accordance with NAIC Annual Statement Instructions.

Agreements with affiliates – Page 7

It is recommended that the Company submit the Lease Agreement for the Alabama Department of Insurance Commissioner's approval in accordance with ALA.CODE§27-29-5 (B)(4)(1975).

Corporate Records - Page 9

It is again recommended that the Company follow its Articles of Incorporation and By-Laws pertaining to its annual meeting, which is indicated as the second Tuesday of March in accordance with ALA. CODE §27-27-22(b)(3)(1975).

It is recommended that the Company maintain accurate records of its board meetings in accordance with ALA. CODE §27-30-21(a)(1975).

It is also recommended that the Company accurately record the number of its shares outstanding and their par values in its annual statements in accordance with the NAIC Annual Statement Instructions.

Committees - Page 10

It is again recommended that the Board of Directors, or a designated committee approve all investments made by the Company, in accordance with ALA. CODE §27-41-5 (1975).

Conflict of Interest - Page 11

It is again recommended that the Company review its conflict of interest policy to determine if it is comprehensive enough to meet the needs of the Company.

Claims payment practices – Page 13

It is recommended that the Company pay the four death claims @ \$10,000/each totaling \$40,000, that were denied because the claimants did not meet the 90 day waiting period.

It is further recommended that the Company review their claim files which originated prior to this examination period and are governed by Group Policy #G-0001; to determine if any other claims fit this scenario.

Privacy policy and practices – Page 13

It is recommended that the Company develop and initiate a written training manual and privacy policy and issue initial, annual and short-form privacy notices to its insured customers in accordance with Ala. Admin. Code 482-1-122 (2001).

Accounts and Records - Page 13

It is again recommended that the Company maintain complete and accurate accounts and records of its affairs and transactions in accordance with ALA. CODE §27-30-21(a)(1975).

It is again recommended that the Company maintain a complete set of work papers and documents in the principal offices of the association in accordance ALA. CODE §27-30-21(b)(1975).

It is again recommended that the Company comply with ALA. CODE §27-27-29 (1975), by maintaining all its records within the state of Alabama or by obtaining the approval of the Alabama Department of Insurance to continue its current practice.

It is again recommended that the Company complete all exhibits and schedules in accordance with NAIC Annual Statement Instructions, and ALA. CODE §27-30-21(a)(1975).

It is recommended that the Company classify, in future financial statements, the amount paid for the securities via its repurchase agreement as short-term investments in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45.

It is recommended that the Company report its certificates of deposit in Schedule E- Part 1 and Schedule E- Part 2 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company complete Schedule DA- Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company report due and unpaid claims in the annual statement in accordance with SSAP No. 55 Paragraph 6b (iii)

It is recommended that the Company not receive income belonging to its affiliate, Peoples Savings Agency and keep complete and accurate records of its affairs and transactions in accordance with ALA. CODE §27-30-21(a)(1975).

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The preceding examination report recommended that the Company that the Company identify every member of the Holding Company System in accordance with NAIC Annual Statement Instructions. The examination noted that the Company had not included all the members of the holding company in Schedule Y, Part 1 of the Annual Statement.

The previous examination report recommended that the Company follow its Articles of Incorporation and By-Laws pertaining to its annual meeting, which is indicated as the second Tuesday of March in accordance with ALA. CODE §27-27-22(b)(3)(1975). The examination revealed that the Company's Board of Directors did not meet on the prescribed day as set forth in the By-Laws.

The previous report of examination recommended that the Board of Directors approve all investments made by the Company in accordance with ALA. CODE §27-41-5 (1975). The examination revealed that the Company did not ratify its investments.

The preceding examination report recommended that the directors and officers of the Company did not sign conflict of interest statements. The examination revealed that the Company did not complete signed conflict of interest statements.

The previous examination report recommended that the Company maintain complete and accurate accounts and records of its affairs and transactions in accordance with ALA. CODE §27-30-21(a)(1975). The examination revealed numerous errors in the Company's accounts and records.

The preceding examination report recommended that the Company maintain a complete set of workpapers in the principal offices of the association in accordance with ALA. CODE §27-30-21(b)(1975). The examination revealed that the Company is maintaining documents in the offices of Crystal Dunn at Skilstaf, Inc. and in the offices of Gary Pridgen, Clearwater, Florida.

SUBSEQUENT EVENTS

During the examination a review of the cash receipt and disbursement journals in 2004 indicated that the Company continued such practices as receiving income which did not belong to the Company; it was income of Peoples Savings Agency. On July 23, 2004, the Company initiated steps to discontinue this practice.

It is recommended that the Company not receive premium income that belongs to its affiliate, Peoples Savings Agency and keep complete and accurate records of its transactions in accordance with ALA. CODE §27-30-21(a)(1975).

On February 18, 2005 a meeting was held at the Alabama Department of Insurance. Those present for the Company included: Wayne Stark, President; Allen Brewer, COO; and Crystal Dunn, Comptroller of Skilstaf, Inc. Those present for the Department included: Richard Ford, Chief Examiner; Jack Brown, Assistant Chief Examiner; John Davis, Legal Counsel; Sheila Travis, Chief Financial Analyst; Cristi Owen, Examiner III; Glenda McDaniel, Examiner II; and Tom Salo, Examiner II and Examiner-in-Charge of the examination.

In the meeting, the management of the Company stated that they would pay the four resisted claims @ \$10,000 each, totaling \$40,000, that were recommended in the examination report to be paid.

Also in this meeting, the management of the Company stated that they would begin to comply with the Alabama Insurance Company Regulatory Act of 1973, as defined in ALA. CODE 27-29-1 (1975), and would start listing all the members of the holding Company on its filing statements and on Schedule Y, Part 1 of the Annual Statement. Further, the Company would begin completing Schedule Y, Part 2, showing all transactions between related parties and affiliates.

During this meeting, the Company provided minutes of the Board of Directors from a meeting held on September 27, 2000, which indicated that the Company established an Executive Committee consisting of the Chairman of the Board and President of the Company.

Further, the Company provided minutes of the Board of Directors from a meeting held March 29, 2004, in which the Board of Directors "affirmed and endorsed all managerial and investment decisions of the Company."

The Company provided copies of its 2003 IRS income tax return, dated June 24, 2004, which indicated that the Company paid \$3,875 on its federal income tax. The Company's 2003 Annual Statement reported \$12,131 as its tax liability.

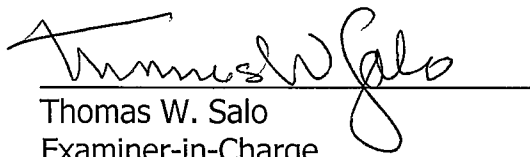
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by persons representing Peoples Savings Life Insurance Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report, to the extent possible utilizing Company records and accounts.

In addition to the undersigned, Harland Dyer, ASA, MAAA, Consulting Actuarial Examiner, both representing the Alabama Department of Insurance, participated in this examination of Peoples Savings Life Insurance Company.

Respectfully submitted,


Thomas W. Salo
Examiner-in-Charge
State of Alabama
Department of Insurance

August 6, 2004